

**STATE BOARD OF ACCOUNTS  
302 West Washington Street  
Room E418  
INDIANAPOLIS, INDIANA 46204-2769**

EXAMINATION REPORT

OF

TOWN OF DEMOTTE

JASPER COUNTY, INDIANA

January 1, 2005 to December 31, 2006



**FILED**

03/21/2007



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OFFICIALS

Office

Official

Term

Clerk-Treasurer

Denise R. Nuttall  
Margaret Woods

01-01-04 to 12-31-06  
01-01-07 to 12-31-07

President of the Town Council

Mark W. Boer

01-01-05 to 12-31-07



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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## INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF DEMOTTE, JASPER COUNTY, INDIANA

We have examined the financial information presented herein of the Town of DeMotte (Town), for the period of January 1, 2005 to December 31, 2006. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above present fairly, in all material respects, the financial information of the Town for the years ended December 31, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 19, 2007

TOWN OF DEMOTTE  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES  
As Of And For The Years Ended December 31, 2005 And 2006

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 130,307	\$ 1,217,340	\$ 1,267,184	\$ 80,463
Motor Vehicle Highway	26,116	98,231	105,938	18,409
Local Road and Street	1,533	16,995	15,638	2,890
Park Nonreverting Operating	13,795	27,384	39,406	1,773
Park Donation	3,386	18,001		21,387
Law Enforcement Continuing Education	768	15,325	14,335	1,758
Riverboat	20,450	-	20,450	-
Rainy Day	61	-	-	61
Build Indiana	1,444	-	1,444	-
DOJ Vest Grant		2,902	2,902	-
Local Attendance Officer Grant	2,463	3,000	4,676	787
Local OWI Fund	825	3,300	2,801	1,324
Local Tobacco Grant	21	-	13	8
US 231 Project Audit Fund	10,000	-	-	10,000
Walmart Grant	422	-	-	422
Water Permit Non Reverting	109	276	260	125
Levy Excess	8,443	8,171	8,443	8,171
Lease Rental	27,794	57,887	57,300	28,381
Cumulative Capital Improvement	24,503	9,997	31,098	3,402
Cumulative Capital Development	-	46,203	-	46,203
Proprietary Funds:				
Wastewater Utility - Operating	82,658	757,308	700,442	139,524
Wastewater Utility - Bond and Interest	66,367	226,033	239,262	53,138
Wastewater Utility - Debt Reserve	248,575	49,138	-	297,713
Wastewater Utility - 2005 Construction	-	739,336	247,600	491,736
Wastewater Utility - Construction	109,980	583,799	305,405	388,374
Fiduciary Funds:				
Town Court	1,107	8,017	8,636	488
Payroll	10,298	1,106,935	1,117,233	-
Totals	<u>\$ 791,425</u>	<u>\$ 4,995,578</u>	<u>\$ 4,190,466</u>	<u>\$ 1,596,537</u>

The accompanying notes are an integral part of the schedules.

TOWN OF DEMOTTE  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES  
As Of And For The Years Ended December 31, 2005 And 2006  
(Continued)

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 80,463	\$ 1,240,752	\$ 1,116,118	\$ 205,097
Motor Vehicle Highway	18,409	123,519	77,996	63,932
Local Road and Street	2,890	16,769	19,659	-
Park Nonreverting Operating	1,773	11,070	10,908	1,935
Park Donation	21,387	36,122	19,045	38,464
Law Enforcement Continuing Education	1,758	4,613	4,254	2,117
Rainy Day	61	-	-	61
Auditor Surplus Clearing	-	30,221	30,221	-
CEDIT	-	111,009	100,000	11,009
Local Attendance Officer Grant	787	2,000	2,679	108
Local OWI Fund	1,324	3,000	4,077	247
Local Tobacco Grant	8	-	8	-
US 231 Project Audit Fund	10,000	-	10,000	-
Walmart Grant	422	-	422	-
Water Permit Non Reverting	125	1,300	2,080	(655)
Levy Excess	8,171	-	8,171	-
Lease Rental	28,381	57,849	55,300	30,930
Cumulative Capital Improvement	3,402	11,553	-	14,955
Cumulative Capital Development	46,203	47,644	9,975	83,872
Proprietary Funds:				
Wastewater Utility - Operating	139,524	845,696	829,283	155,937
Wastewater Utility - Bond and Interest	53,138	314,605	302,948	64,795
Wastewater Utility - Debt Reserve	297,713	68,515	-	366,228
Wastewater Utility - 2005 Construction	491,736	15,055	506,791	-
Wastewater Utility - Construction	388,374	944,292	851,186	481,480
Fiduciary Funds:				
Town Court	488	11,034	9,822	1,700
Payroll	-	1,066,029	1,066,029	-
Totals	<u>\$ 1,596,537</u>	<u>\$ 4,962,647</u>	<u>\$ 5,036,972</u>	<u>\$ 1,522,212</u>

The accompanying notes are an integral part of the schedules.

TOWN OF DEMOTTE  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services and wastewater.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.



TOWN OF DEMOTTE  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
For The Year Ended December 31, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Town Hall	\$ 148,298	\$ 46,917
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
1997 Wastewater Refunding	\$ 245,000	\$ 45,000
2000 Wastewater SRF Construction	2,595,000	105,000
2005 Wastewater Construction	720,000	35,000
Total business-type activities long-term debt	\$ 3,560,000	\$ 185,000

## TOWN OF DEMOTTE EXAMINATION RESULTS AND COMMENTS

### CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the Town Court. The records presented did not provide footed totals of disbursements or provide ending cash balances. Similar comments were in the prior two audit reports. A check for state fees written in December 2005 was not posted to the records and December 2006 disbursements were not posted at all. Some receipts were not posted and some receipt totals did not foot across or down in the cash book. The official did not perform monthly bank reconciliements. A bank reconciliation on December 31, 2006 indicated a cash necessary to balance of \$133.25. No entries have been made to the Town Court Cash Book the current year as of February 7, 2007.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

### POLICE DEPARTMENT RECEIPTS AND FEES

Receipts and fees collected by the police department were remitted to the Clerk-Treasurer less frequently than once a week.

Receipts and fees collected by a police department should be remitted to the clerk-treasurer or city controller at least once each week. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

### CONFLICT OF INTEREST

Mark W. Boer, Town Board President, was compensated for performing building inspections and Jeff Cambe, Town Board Member and the owner of a car dealership, sold a car to the Wastewater Utility. Neither individual filed a Uniform Conflict of Interest Disclosure Statement.

Indiana Code 35-44-1-3 states, in part:

- "(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."
- "(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant. . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."
- "(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a

TOWN OF DEMOTTE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

#### CAPITAL ASSET RECORDS

Neither the Town nor the Utility maintain sufficient detailed records of capital assets.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

#### CONTRACTS

Payments totaling \$15,000 were made to the Jasper County Industrial Foundation for economic development assistance in 2006 without a contract.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

#### SUPPORTING DOCUMENTATION

Several payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF DEMOTTE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

ORDINANCES AND RESOLUTIONS

As a part of our audit we tested a sample of utility bills to insure the bills were being calculated in accordance with the rate ordinance. Two of ten bills tested were calculated incorrectly.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY LOANS RECEIVABLE

In order for the Northwest Jasper Regional District (NORWEJ Project) to apply for and get a grant from the Rural Development, a Branch of the U.S. Department of Agriculture to start a Water Utility, the Town of DeMotte Wastewater Utility paid for various planning stages expenses and then signed promissory notes for \$141,872.62 (December 2004), \$546 and \$4,117 (March 2006). These notes total \$146,535.62.

Utility expenses are only to be used for the operation of the Utility. Indiana Code 8-1.5-3-8

OVERDRAWN FUND BALANCES

The fund balance of the Water Permit Nonreverting Fund was overdrawn in 2006.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF DEMOTTE  
EXIT CONFERENCE

The contents of this report were discussed on February 19, 2007, with Denise R. Nuttall, Clerk-Treasurer; Margaret Woods, current Clerk-Treasurer; and Mark W. Boer, President of the Town Council. The officials concurred with our findings.

The contents of this report were discussed on February 19, 2007, with Gregory Osborn, Town Judge. The official response has been made a part of this report and may be found on page 12.

**TOWN COURT OF DEMOTTE  
GREGORY OSBORN, JUDGE**

112 Carnation St SE  
Demotte, IN 46310  
219-987-5138  
demottejudge@comcast.net

**"OFFICIAL RESPONSE"**

February 25, 2007

State Board of Accounts  
302 W. Washington St., Room E418  
Indianapolis, IN 46204-2765

This letter is in response to the audit remarks of the Field Examiner, regarding the audit date of 2/16/2007 for the town of DeMotte.

I would like to make the following comments regarding the audit;

1. This is a small court of one judge and one part-time secretary. We do not use any accounting resources of the town or any outside accounting firm.
2. I work as the Judge on a part time basis, usually 3 to 4 hours per week.
3. I have no training as an accountant, and the state does not provide any accounting training or computer software.
4. The field examiner agreed at the exit interview that receipts were being deposited and disbursements were being made.
5. The field examiner pointed out the discrepancies or errors that would account for the \$133.25 necessary to balance the account, once the accounting errors are corrected.
6. The entries to the cash book for 2007 were made 2/22/07. My practice is to transfer the receipt book entries to the cash book in the month following the activity. I then fill out the monthly reports and make the disbursements to the appropriate local, county and state agencies.

I will do my best to bring the accounting deficiencies up to state requirements and correct any errors or omissions.

Sincerely,



Gregory Osborn, Judge